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Weekly Commentary, Selected Financial Data, and Business Indicators

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The Federal Reserve . . .

As if the current recession had not already claimed a sufficient number of casualties in terms of business failures, jobless workers and corporate profits, it has recently claimed one more (but whose loss will not be mourned): The Federal Reserve's strict monetarist operating procedures. Despite a strong surge in the growth of M1 in recent months, the Fed has made little effort to restrict the size of this bulge, preferring instead to do quite the opposite by generously providing the reserves necessary to support such rapid deposit growth. While these actions probably ensure that M1 will remain far above target over the balance of the year, they should also forestall the emergence of any prolonged upward pressures on reserve-related interest rates. And with factory orders, industrial production and capacity utilization rates still dropping while the jobless rate just hit another postwar high (10.8 per cent), this may be just what the economy needs.

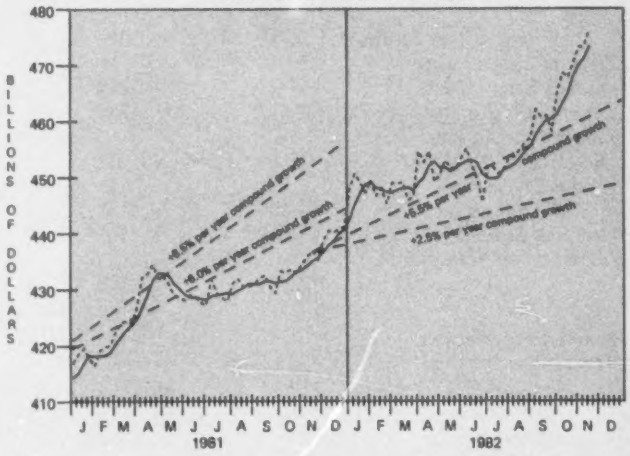
Indeed, the policy-setting Federal Open Market Committee did not even bother to set an interim, fourth quarter M1 growth target when it met on October 5. Because of the maturing of more than $30 billion of All-Savers certificates in October, some of the proceeds of which will at least temporarily pass through M1, as well as enhanced liquidity preferences among the public due to heightened economic and financial uncertainties, the Fed decided that M1 is now an unreliable indicator of the true direction of either the economy or prices—a not unreasonable assessment. For during the past month alone, as both the soggy pace of economic activity and exceptionally low rates of inflation persisted, M1 expanded at a seasonally adjusted 23.2 per cent annual rate, soaring more than $15 billion above its upper target boundary (see chart).

But tightening the monetary reins at this point would have only plunged an already weakened economy into an even deeper recession. Thus, the Fed found itself between the horns of a dilemma, forced to choose between the dictates of monetarism, which has served it so well in the past, and the needs of the real economy, which remains depressed (Financial Digest—September 13, 1982). It chose the latter, placed the former on hold and, in so doing, replaced its strict operating rules with flexible, policymaker discretion.

. . . Modifies The Course

With the link between trends in M1 and monetary policy severed, the Fed began to pay much closer attention to interest rates. Tired of waiting for the long-predicted consumer-led recovery to begin and freed from the bondage of responding to sharp

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (LINE)
VS. WEEKLY FIGURES (DOT)



upward gyrations in the money supply numbers, the central bank launched the opening stages of its own Fed-led recovery. It repeatedly cut the discount rate, while stepping up the provision of nonborrowed reserves to the banking system, thereby prompting a good-sized drop in interest rate levels. But rates have not only moved lower, they have also become much more stable under the modified policy approach, perhaps an indication that interest rates do matter. The average monthly swing in the Federal funds rate, which is directly influenced by central bank policy actions, has been limited to less than 45 basis points since the beginning of September, only about one-third the average monthly change in the funds rate during the 35 months between September, 1979 and August, 1982.

The major beneficiary of lower, and more stable, interest rates has been the bond markets. With some semblance of short-term interest rate stability

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restored and an upward sloping yield curve now in place, the capital markets have finally been able to establish firmer footings. As a result, so, too, has some of corporate America—which has finally begun the task of reducing its dependence on high-cost, short-term debt by funding its massive overhang of short-term liabilities in the long-term capital markets. In October alone, with new issue volume in the corporate bond market soaring above $6 billion (compared with a monthly average of only $1.8 billion during the first six months of 1982), commercial and industrial loans outstanding declined by a seasonally adjusted $4.6 billion, or 2.1 per cent. This was the largest one-month percentage decrease since early 1976, and the third largest on record. What is more, nonfinancial commercial paper is also being retired at a rapid clip; total outstandings have declined for three consecutive months and in October, stood almost ten per cent below their May, 1982 peak.

Until this process got underway, the pace of economic activity, and prospects for a sustained recovery, remained vulnerable to fluctuations in short-term credit demands and interest rates. Now, however, this vulnerability is being diminished, as short-term business credit demands fade, short-term interest rates trend even lower, the bond markets establish even firmer footings and the funding of more short-term debt occurs. And while the poten-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/24/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	145.144	+ 1.264	+ 9.700
Loans to Depository Inst.	.467	– .275	+ .130
Float	2.264	– .462	– 1.265
Total Reserve Bank Credit	156.798	+ .015	+ 7.443
Treasury Deposits with Federal Reserve Banks	2.871	– .237	+ .030
Currency Outside Banks	135.677	+ .685	+ 9.138
Member Bank Reserves:			
Required	40.858	– .272	+ .095
Excess (Deficiency)	.251	– .170	– .071
Total Reserves Held	41.109	– .442	+ .024
Net Free Reserves	.016	+ .101	– .161
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	103.541	+ .169	+ 9.542

Monetary Aggregates†			% Change Since Three Months Ago*	% Change Since Year Ago
M1		474.5	+ 17.3‡	+ 8.9‡
M2	(October '82)	1,967.9	+ 9.3	+ 10.0
M3	(October '82)	2,381.7	+ 10.6	+ 10.7
L	(August '82)	2,858.9	+ 12.2	+ 11.7

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 12/3/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.40%	7.70%	7.95%
* Federal Agencies	8.25	8.58	9.00
* Project Notes—Taxfree (46% Taxable Equivalent)	7.50	8.52	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.75	8.90	9.75

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.63%	Jan.	8.40%
15- 29 days	8.63	Feb.	8.45
30- 59 days	8.50	Mar.	8.45
60- 89 days	8.50	Apr.	8.60
90-179 days	8.38	May	8.55
180-239 days	8.38	Jun.	8.50
240-270 days	8.50		

‡Industrial Paper—Prime			
30- 89 days	8.38%	†Federal Funds Effective Rate	8.95%
90-120 days	8.50		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,081	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,478	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.0	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Oct '82	6.0%	2.4%	4.8%
Change in Producer Prices*	Oct '82	6.0%	– 1.2%	7.2%
Civilian Employment (Thousands of Persons)†	Nov '82n	99,032	99,093	100,172
Unemployment as % of Civilian Labor Force†	Nov '82n	10.8%	10.4%	8.3%
Personal Income*	Oct '82	$ 2,621	$ 2,602	$ 2,487
Leading Indicators Composite Index (1967=100)†	Oct '82n	131.4	131.1	128.3
Industrial Production Index (1967=100) †	Oct '82	136.3	137.4	149.1
Net Change in Consumer Installment Credit†	Sep '82	$ 1.09	$ 0.07	$ 2.98
U.S. Merchandise Trade Balance †	Oct '82n	–$ 5.33	–$ 4.19	–$ 5.03
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Oct '82	1,122	1,111	854
New Construction Expenditures*	Oct '82n	$ 234.9	$ 232.4	$ 230.8
Total Business Inventories†	Sep '82	$ 515.3	$ 514.6	$ 515.3
Total Business Sales†	Sep '82	$ 338.4	$ 339.5	$ 353.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

tial for a clash between Federal government and corporate credit demands will exist throughout much of 1983, a good-sized economic recovery will help reduce Federal borrowing requirements. This suggests that even fiscal policy, and the huge red ink totals which it has produced, may soon find its course modified—for the better, for a change.

In International Trade . . .

The recent meeting of the 88 member countries of the General Agreement on Tariffs and Trade (GATT) in Geneva, Switzerland occurred at a time of exceptional economic uncertainty and disarray. The United States is in the deepest recession since the 1930s, when international trade was severely damaged by protectionism. Most of the other countries which are members of GATT are either in recession or experiencing the lowest rates of real growth in many years. Unemployment in the developed countries is now estimated to be at 32 million, about nine per cent of the labor force.

Although it was the 38th meeting of the GATT membership, it was the first meeting of top-level trade ministers under GATT auspices since 1973, the year of the first OPEC oil price jump which permanently changed world trade patterns. Further, it was the first time since the GATT meetings were established in 1947 that the agenda covered the entire spectrum of international trade policy instead

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/17/82)	142,045	– 2,214	+14,254
New York City (11/17/82)	37,535	– 1,160	+ 6,366
Commercial Paper (11/17/82)	168,844	– 458	+ 1,204

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/17/82)	216,256	– 565	+26,204
New York City (11/17/82)	61,315	+ 3	+ 6,348

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/17/82)	500,349	+ 971	+38,748
New York City (11/17/82)	120,423	+ 1,245	+11,179

Financial Markets

	Friday 12/3/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.12%	– .07	– 2.20
180-Day Bills†	8.73	+ .06	– 2.26
Longest Bills	9.00	– .05	– 2.53
Recent Issues:			
9⅞s 11/30/84	9.68	– .10	
12¼s 9/30/86	10.25	– .15	
10½s 11/15/92	10.47	– .13	
10⅜s 11/15/12	10.30	– .22	
Municipals:			
Bond Buyer–20 Bond Index* (12/2/82)	10.23%	+ .07	– 1.95
Blue List Total ($ Million)	$1,524	+$ 132	+ $ 273
30-Day Visible Supply ($ Million)	$4,066	–$2,854	+ $1,897
Total	$5,590	–$2,722	+ $2,170
Corporates:			
Moody's Aa Composite (12/2/82)	12.48%	+ .03	– 2.20
30-Day Visible Supply ($ Million) ‡	$1,200	–$ 210	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,031.36	+ 24.00	+ 138.67
Transportation	445.37	+ 20.46	+ 50.34
Utilities	116.74	+ .60	+ 3.82
65 Stocks	403.67	+ 11.22	+ 45.94
Standard and Poor's 500 Stocks	138.69	+ 3.81	+ 12.43
N.Y.S.E. Composite Index	80.05	+ 1.91	+ 6.81
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,382	+18,904	+ 33,340

* 46% Taxable equivalent 18.94%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/3/82	Week Ago
Overnight	8.88%	8.38%
1 month	9.19	9.00
3 month	9.44	9.56
6 month	9.63	9.88
1 year	10.00	10.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.30%	12.40%
Long Term (7 to 15 yrs.)	12.35	12.45

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/3/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02090	47.85
Canada	.8079	1.2378
Denmark	.1167	8.5725
France	.1446	6.9138
Germany	.4103	2.4375
Italy	.0007081	1412.20
Japan	.004043	247.33
Mexico	.008000	125.00
Netherlands	.3728	2.6825
Switzerland	.4787	2.0888
U.K.	1.6378	.6106

of a limited number of specific items. The trade conference was proposed two years ago by the United States in recognition of the fact that protectionist sentiments, not only in the United States but in many other countries, were increasing under the pressure of slowing rates of real growth, high inflation and rising unemployment.

The subsequent two years have only served to increase both the economic pressures and the appeal of protectionism. Even though the threat of inflation has abated in the last two years, global recession has intensified and many countries and industries find themselves in financial difficulties. High interest rates have at the same time slowed world trade and increased the proportion of foreign exchange earnings which must be diverted from imports and investment to service existing external debts. In many countries, external debt has reached unprecedented levels not only in dollar terms, but as a percentage of their foreign exchange earnings. For example, Brazil, whose external debt is estimated at $72 billion will have to make $16.3 billion in principal and interest payments in 1983—about 70 per cent of its expected export earnings for that year. Thus, outstanding debt joins unemployment as a major force encouraging governments toward protectionist measures.

. . . GATT Stays The Course

Last year the value of world trade was one per cent less than the previous year and showed no growth at all in volume terms. The developing countries (LDCs), many of which export one, or only a few, basic commodities, have been particularly hard-hit in this respect. What is more, the possibility of growing protectionist legislation against their exports is a further threat to the ability of the LDCs to both pay for essential imports and meet their external financial obligations.

Constrained by their foreign debts, many countries, particularly developing countries and some in Eastern Europe have severely restricted their imports either voluntarily or as part of an agreement with the International Monetary Fund in order to conserve foreign exchange. Although this policy reduces external financing requirements, helps to improve the nation's balance of payments position and buys time to restructure debt, it is yet another factor contributing to the contraction of world trade.

The extent and depth of the worldwide economic malaise are apparent in the intensity of the debate at the GATT meeting which was extended for two days beyond its planned closing date. The vital importance of world trade as the most likely avenue for economic recovery made each participant at the Geneva meeting particularly sensitive to its own immediate national interests and intransigent in defending them, with the result that on many issues the GATT members were deadlocked. Given the many problems facing the world's trading nations at the present time, it is not surprising that the outcome of the GATT meeting was essentially a resounding vote for maintaining the status quo. H

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